UNITED NATIONS

TD

United Nations Conference on Trade and Development

Distr.
GENERAL

TD/B/49/7
1 August 2002

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Forty-ninth session
Geneva, 7-18 October 2002
Item 4(b) of the provisional agenda

LEAST DEVELOPED COUNTRY STATUS: EFFECTIVE BENEFITS AND THE PERSPECTIVE OF GRADUATION

Report by the UNCTAD secretariat

Executive Summary

This issues note has been prepared to facilitate the debate at the 49th regular session of the Trade and Development Board on the benefits effectively derived, and the perspective of graduation, from LDC status. The subject is in line with recent concerns that were echoed by the Economic and Social Council. In its resolution 2000/34, the Council looked forward to the report of UNCTAD "*on the effective benefits derived by the least developed countries specifically on the basis of their inclusion in the list of the least developed countries and on the practical impact of the measures in favour of least developed countries*". In resolution 2001/43, ECOSOC urged "*the international organizations, bilateral donors and graduating or near-graduating countries to initiate a debate concerning the treatment of graduating countries with a view to ensuring that the graduation of a country from the list of the least developed countries should not result in disruption to its development plans, programmes and projects, and the importance of ensuring a smooth transition from least developed country status for countries that become eligible for graduation*". In its draft resolution 2002/L.27/Rev.1, ECOSOC urged "*the international organizations, bilateral donors and graduating or near graduating countries to continue the debate*" concerning the treatment of graduating countries.

The action envisaged in the note is expected to facilitate the fulfilment of the United Nations Millennium Development Goals and the Programme of Action for the LDCs for the decade 2001-2010. The note argues that establishing a closer link between the structural difficulties experienced by individual LDCs as measured through the LDC criteria, and the special treatment of these countries by virtue of their LDC status, would enhance the effective impact of this status. It also highlights the link between the desirability of graduation from LDC status, and the importance of granting, before graduation, international support measures that will have a durable impact on the structure of the economy.

GE. * 2 0 0 2 0 5 1 4 2 6 *

LS

ENG

CONTENTS

Pages

I. Introduction 3

II. International support measures and the effective benefits associated with the LDC status 4

A. Are international support measures explicitly granted by virtue of the LDC status? 4
B. Are international support measures delivered as promised? 5
C. Are international support measures effectively used by beneficiary countries? 5
D. Do benefits from the LDC status mean a genuine structural impact? 5
E. Reducing the gaps: a joint responsibility of LDCs and their development partners 5

III. The perspective of graduation from LDC status 6

A. Limited progress toward graduation thresholds 7
B. International support measures and structural progress 7
C. Structural progress and the graduation rule 8
D. The "island paradox" and the need for a more differential approach to graduation 9

IV. Conclusion: towards a better impact of the special treatment of LDCs 9

Possible areas of action for consideration by the Trade and Development Board 10

Annexes:
1. Evolution in the methodology for identifying LDCs 12
2. Summary of expected international support measures by virtue of the LDC status 14
3. Summary of the situation of LDCs vis-à-vis graduation borders 16
4. Two options for the graduation rule 17

I. Introduction

1. Since 1971, the United Nations has denominated as "least developed countries" (LDCs) a category of countries that are structurally handicapped in their development process, and in need of a high degree of support, in their development efforts, from the international community. In the light of the criteria used for determining the list of LDCs (see annex 1), these countries are defined as low-income countries suffering from acute weaknesses in their human capital and their economic structure. Many international support measures have been offered to the LDCs. The nature and scope of these measures have been influenced by the general evolution of international economic cooperation, in particular in the area of development financing and in the multilateral trading system. The three United Nations conferences on the Least Developed Countries (1981, 1990, 2001) significantly contributed to enhancing the support given to these countries by the international community.

2. However, despite three decades of efforts, the socio-economic situation of most LDCs did not improve. The *Least Developed Countries Report 2002* noted that "the number of people living in extreme poverty in the LDCs has more than doubled over the last thirty years"[1]. Most LDCs face a risk of increased marginalization from the global economy, and this situation could undermine the international community's efforts to fulfil the Millennium Development Goals of the United Nations (MDGs). This raises a credibility issue, not only about the world's capacity to meet the MDGs, but also regarding the LDC status and the benefits that are normally expected to be derived from this status. The Programme of Action for the LDCs for the decade 2001-2010 recommends that a more supportive international environment be created for the LDCs, and highlights seven key areas of commitments on the part of LDCs and their development partners. The international community is now faced with the challenge of translating these commitments into concrete policies, so that new opportunities for reducing poverty and achieving progress towards graduation in the LDCs are realized.

3. The rationale for establishing the LDC category and for allowing the LDC criteria to evolve on several occasions was that special international support measures ought to be granted to these countries in response to their acute structural handicaps. ECOSOC's recent interest in an examination of the effective benefits derived from the LDC status[2] underscores the importance of this rationale, and calls for international support measures more specifically designed in the light of the structural handicaps of the LDCs (as captured through the criteria) and granted by virtue of the LDC status. This approach relies on using specific knowledge –LDC profiles in the light of the criteria— to enhance the international support given to the relevant countries[3]. It contributes to enhancing the credibility of the LDC status by seeking maximum benefits from this status, and therefore implies the necessity to assess past benefits prior to envisaging possible adjustments in some relevant international support measures. UNCTAD is currently carrying out a country-specific analysis of the effective benefits derived from the LDC status, in response to the concern raised by ECOSOC.

4. This note aims at (a) highlighting a range of issues regarding the effective impact of the special treatment of LDCs, and the perspective of graduation from the LDC status; (b) contributing to the international debate, within the United Nations system, on promoting a better impact of the special treatment of LDCs, and securing a "smooth transition" for graduating

---

[1] UNCTAD, *The Least Developed Countries Report 2002*, p. iii.
[2] see ECOSOC resolution 2000/34, cited in the executive summary.
[3] The *Least Developed Countries Report 2002* noted that "policies based on inadequate knowledge are likely to increase rather than reduce poverty".

countries; and (c) delineating the scope of action through which UNCTAD could contribute to promoting a more effective impact of the special treatment of LDCs. It is hoped that the work envisaged below will facilitate the fulfilment of the United Nations Millennium Declaration and of the Programme of Action for the LDCs for the 'ecade 2001-2010, while taking into consideration the work programme launched by the Fourth Ministerial Conference of the World Trade Organization (Doha, November 2001), and the Monterrey Consensus from the International Conference on Financing for Development (March 2002).

II. International support measures and the effective benefits associated with the LDC status

5. A number of questions arise in any examination of the link between the international support measures (ISMs) relevant to LDCs, and the benefits that have effectively accrued to these countries by way of special treatment. Firstly, to what extent have the ISMs for LDCs been determined by virtue of the LDC status, as opposed to other statuses based on other criteria? Secondly, whenever special measures in favour of LDCs were announced, to what extent were they effectively "delivered" as promised, effectively used when delivered, and effectively absorbed by relevant recipient populations when used? Thirdly, to what extent have ISMs benefited LDCs through structural socioe-conomic effects that enabled these countries to demonstrate durable progress towards graduation?

A. Are international support measures explicitly granted by virtue of the LDC status?

6. Despite the general acceptance of the LDC status, a large part of the support received by most LDCs is determined on the basis of non-LDC criteria. The LDC status is a determinant of special treatment in three principal areas: (a) in the preferential access of LDC products to the markets of trading partners that offer an LDC-specific treatment; (b) in several agreements of the World Trade Organization; and (c) in the access of LDCs to special measures and programmes of technical assistance offered by the United Nations system, and by the six organizations that sponsor the Integrated Framework for trade-related technical assistance to the LDCs (annex 2).

7. In contrast, in the field of development financing, the impact which the LDC status has had on the official development assistance (ODA) received by LDCs is difficult to estimate, and generally deemed to have been limited. Most aid inflows and related financial transfers have been determined on the basis of other criteria, most of which were low-income-related criteria. Concessionary financing is generally allocated under cooperation schemes that do not refer (or refer only marginally) to the LDC status as an operational determinant of the eligibility for aid. Per capita income is the predominant criterion used by most bilateral and regional partners, in addition to political criteria (among bilateral donors) and criteria relevant to creditworthiness (regional development banks). As low-income countries, 42 LDCs and 23 non-LDCs benefit from a wide range of concessionary financing facilities, a treatment which the seven "lower-middle-income" LDCs cannot necessarily expect[4].

[4] Seven LDCs (Cape Verde, Djibouti, Equatorial Guinea, Kiribati, Maldives, Samoa, Vanuatu) are classified as "lower-middle-income" countries by the World Bank (per capita GNI between $756 and $2,995 in 2000).

B. Are international support measures delivered as promised?

8. LDC-specific ISMs relevant to market access have generally been "delivered" as pledged, although there is still scope for improvements in market access conditions (e.g. by improving rules of origin and reducing non-tariff barriers). Special concessions for LDCs under World Trade Organization agreements are automatically extended to LDC members of that organization. In the area of technical assistance, ISMs for LDCs have not been implemented as fully and rapidly as expected. The modest results generated by the Integrated Framework since this scheme was instituted (1997) constitute one aspect of the gap observed between promised ISMs and relevant effective benefits to LDCs. The most substantial gaps between announced ISMs and "delivered" ISMs have been observed in the area of development financing, through differences between ODA commitments and the effective ODA performance of development partners[5].

C. Are international support measures effectively used by beneficiary countries?

9. A third type of gap has been observed between the potential offered by LDC-specific ISMs that were "delivered" and the extent to which these ISMs were effectively used by recipient countries. This gap has been common in the area of market access: the degree of utilization of preferential arrangements in favour of LDCs has always been low in a majority of LDCs, because of weaknesses in export supply capacities and in the ability to take advantage of such arrangements. There are also situations where technical assistance is made available by development partners, but institutional weaknesses in recipient LDCs dampen the possibilities of taking consistent advantage of technical cooperation programmes. In the field of development financing, many LDCs have not been able to develop or maintain a sufficiently absorptive capacity in response to project financing opportunities.

D. Do benefits from the LDC status involve a genuine structural impact?

10. The fourth type of gap between the benefits that had originally been expected from the LDC status and those effectively derived by the LDCs relates to the nature of the impact of relevant ISMs. LDCs generally need ISMs to induce structural socio-economic progress or transformation, in particular human capital development and economic diversification. ISMs with a significant structural impact could place LDCs in a situation of durable improvement, by virtue of which these countries would normally become better able to achieve progress towards graduation thresholds. Whether most of the benefits accruing to LDCs were "structural" along these lines has often been questioned, and is currently the subject of a detailed analysis at country levels by the UNCTAD secretariat.

E. Reducing the gaps: a joint responsibility of LDCs and their development partners

11. Only a careful examination of the effective benefits derived from the LDC status can cast light on the gaps described above, and assist the international community in reducing these gaps. The latter will often imply increasing the absorptive capacities of recipient countries, in particular by targeting the core constraints highlighted by the LDC criteria. Reducing the gaps may also involve revisiting the nature or modalities of some of the concessions offered by the development partners of the LDCs.

---

[5]As the *Least Developed Countries 2000 Report* noted, net ODA to LDCs, in real per capita terms, declined by 45 per cent over the 1990s, and the share of aid to LDCs in DAC donors' GNP had fallen from 0.09 per cent in 1990 to 0.05 per cent in 1998, a year in which only 5 DAC members met the targets of the Programme of Action for the LDCs for the 1990s (0.20 per cent or 0.15 per cent of GNP).

12. Examining the ISMs granted to LDCs by their development partners reveals that the LDC status has had a relatively limited impact. One observes that the LDCs and their development partners have not established a systematic operational link between the factors underlying the eligibility of a country for LDC status on the one hand, and the support to be given to this country in response to its specific disadvantages according to the LDC criteria, on the other hand. In this context, an avenue for enhancing the use and credibility of the LDC status would be, before granting LDC-specific treatment, to take into consideration the particular needs of the country in the light of its performance under the LDC criteria. Besides the per capita income and human capital indicators, particular attention would be given to the key elements of the composite Economic Vulnerability Index (see annex 1), and specifically to the indicators of instability of agricultural production and of goods and services exports. Then, granting a range of desirable ISMs by virtue of the LDC status of the country could be organized in response to weaknesses and vulnerabilities as identified through the criteria.

13. Two fundamental aspects of this approach to the link between the LDC status and its effective impact are as follows: (a) this approach implies an active partnership between the LDC and its development partners in the special treatment, particularly at the early stage of identifying the need for an LDC-specific treatment; and (b) it is a country-specific approach that calls for a matching of the ISMs that will be granted by virtue of the LDC status of the country with the specific needs of this country in the light of the LDC criteria. Each LDC would be invited to devise key elements of a country-specific treatment or package of ISMs relevant to priority needs. This could be done through a process in which the link between the specific disadvantages to be dealt with and the special treatment expected by virtue of the LDC status would be explicitly highlighted. This exercise began, in most LDCs, during the preparation for the Third United Nations Conference on the Least Developed Countries, through the formulation of national programmes of action. To a varying extent, development partners have already responded to the relevant needs with a view to inducing a structural impact, in particular through ISMs that contribute to reducing vulnerability to economic or natural shocks. ISMs that have already had a structural impact could be usefully analysed in the light of the situation of the country under the criteria (instability of exports, etc.). Meanwhile, the identification of structural handicaps that did not receive sufficient attention could guide the formulation of new ISMs of direct relevance to these handicaps.

III. The perspective of graduation from LDC status

14. Although a large majority of the LDCs remain relatively far or very far away from graduation thresholds, there are significant differences in the evolution of LDCs vis-à-vis the graduation borders (see annex 3). An examination of the position of each LDC under the graduation thresholds allows a distinction between the LDCs that are clearly off the graduation route, and those –very few— for which graduation can eventually be anticipated. Subsequent to the graduation of Botswana in 1994, there were three cases of full eligibility for graduation from LDC status (i.e. eligibility pronounced after relevant criteria had been met in two consecutive reviews): Vanuatu in 1997, and Cape Verde and Maldives in 2000. However, none of these three LDCs has graduated from the category[6].

[6] Vanuatu was technically no longer eligible for graduation in 2000. Cape Verde and Maldives did qualify for graduation in that year, but ECOSOC decided that in the absence of sufficient clarity in the international community's willingness to grant "smooth transition" measures to graduating countries, the decision to graduate the relevant countries should be postponed.

A. Limited progress toward graduation thresholds

15. In the 2000 review of the list of LDCs, eight LDCs (Bangladesh, Equatorial Guinea, Eritrea, Liberia, Madagascar, Samoa, Tuvalu, Vanuatu) met one graduation criterion. This has been an encouraging situation, even though it is insufficient to justify full eligibility for graduation. Thirty-nine LDCs did not meet any graduation criterion at the time of the 2000 review of the list. However, among these 39, 15 States had demonstrated progress towards the graduation threshold relevant to the Economic Vulnerability Index/EVI (Angola, Burkina Faso, Central African Republic, Chad, Comoros, Ethiopia, Guinea, Kiribati, Malawi, Mali, Mauritania, Nepal, Niger, Sao Tome and Principe, Sierra Leone), while three demonstrated consistent progress under the diversification/vulnerability criterion (Burundi, Uganda, Yemen), and one (Bhutan) enjoyed continued progress under the quality-of-life criterion.

16. Two of the 15 countries that recorded progress under the EVI (Kiribati and Sao Tome and Principe) met one graduation criterion in the past. In the three LDCs where consistent progress has been observed under the EDI/EVI, the graduation line remains relatively far away. The progress made over the years by Uganda in its economic diversification was specially noted.

17. In the 20 other LDCs, there was no consistent progress under any graduation criterion. These countries are: Afghanistan, Benin, Cambodia, the Democratic Republic of the Congo, Djibouti, the Gambia, Guinea-Bissau, Haiti, the Lao People's Democratic Republic, Lesotho, Mozambique, Myanmar, Rwanda, Senegal, the Solomon Islands, Somalia, Sudan, Togo, the United Rep. of Tanzania, and Zambia. In four of them (Haiti, the Lao People's Dem. Rep., Lesotho, Solomon Islands), one graduation criterion was met in the past (per capita GDP in Haiti; APQLI in the Lao People's Dem. Rep., Lesotho and the Solomon Islands) and ceased to be met either in 2000 (Lesotho, Solomon Islands) or in 1997 (Haiti, the Lao People's Dem. Rep.), particularly because of prolonged socio-political instability (Haiti, Solomon Islands).

18. Overall, there are limited graduation prospects for the LDCs in the current decade. At best, only the four potential graduation cases that had been noted in the 1997 review (Cape Verde, Maldives, Samoa, Vanuatu) might evolve towards graduation, but the special case made by these countries on grounds of island-specific vulnerability could also enable them to retain their LDC status until the idea of "smooth transition" for graduating countries has become a reality. Among the six other LDCs meeting one graduation criterion (Equatorial Guinea, Liberia, Tuvalu, Bangladesh, Eritrea, Madagascar), none except Tuvalu has yet come near to demonstrating a capacity to meet a second graduation criterion.

B. International support measures and structural progress

19. The link between special international support measures and the objective of structural socio-economic progress is an important aspect of the rationale for granting LDCs a more favourable treatment. There are, however, situations where the relationship between LDC-specific benefits and socio-economic progress is loose, or non-existent. For example, there can be LDC-related benefits and yet no sign of consequent structural progress. This is found in situations where LDC-specific benefits principally consisted of trade preferences, and where such preferences, though potentially beneficial to future exporters, have not had any structural impact in the absence of relevant export supply capacities. Conversely, there have been situations where socio-economic progress did take place, but not as a result of effective benefits from the LDC status. The latter case is relatively common among the LDCs that have come near graduation thresholds, and in which the eligibility for graduation (observed through relevant progress in the

per capita income and human capital situation) was explained by steady growth in one or two economic sectors, such as international tourism.

20 As the eligibility for inclusion in the list of LDCs is based on three criteria, structural progress towards graduation ought to be interpreted in the light of the same criteria, subject to methodological differences between the inclusion rule and the graduation rule. Structural progress cannot be interpreted as confined to growth in per capita income. Fundamentally, it implies human capital development and improvements in the structure of the economy, in particular sound economic diversification that will reduce the exposure to adverse external shocks. The conceptual breakthrough that took place in 2000, when the criterion of economic vulnerability was introduced, underscored the recognition of the importance of aiming at a lesser structural fragility in order to achieve genuine progress towards graduation borders.

C. Structural progress and the graduation rule

21. Graduation from the LDC status implies durable improvement in the human capital and in the resilience of the economy with regard to adverse external shocks. However, there have been situations of eligibility –or near-eligibility— for graduation without significant structural progress in the economy, or without a lowering of the structural handicaps that explain economic vulnerability. Conversely, there have been situations of structural economic progress (captured through a lower economic vulnerability) without convergence towards graduation borders, because the graduation rule, which implies that at least two graduation thresholds be reached, was not met[7].

22. The issue of eligibility for graduation without significant structural progress raises the question of the appropriateness of the current graduation rule whereby meeting two graduation criteria (over two consecutive review periods) is sufficient to imply that a country is able to graduate from LDC status. One could take the view that not only two, but all three graduation criteria ought to be met (all three graduation thresholds should be reached) for an LDC to be deemed able to exit the LDC category, so that no country with a poor score under the vulnerability criterion (no country situated below the graduation line under the EVI) is found eligible for graduation. Annex 4 illustrates, through the relationship between LDC benefits, structural progress and eligibility for graduation, the current two potential graduation cases (Cape Verde and Maldives) on the one hand, and what could be a preferred scenario for recognizing the readiness of these countries to graduate, on the other hand.

23. The notion of smooth transition from LDC status implies that the loss of international support measures granted by virtue of that status should not harm the graduating country in its development process. Harmlessness could involve "phasing out" arrangements (as opposed to a sudden loss of concessions), if not partial retention of LDC benefits insofar as such retention will be deemed vital to the beneficiary countries. "Smooth transition" has so far been a dormant notion to which most of the development partners of LDCs have given little consideration in anticipation of graduation cases[8].

---

[7] Bangladesh and Madagascar, in the 2000 review of the list of LDCs, rose above the graduation line relevant to the economic vulnerability criterion (as a result of structural progress through economic diversification), but remain relatively far from being eligible for graduation, considering their poor performance under the low-income and human-capital criteria: see UNCTAD, Graduation from the Least Developed Country status: where do the LDCs stand?, UNCTAD/LDC/Misc. 83, 2002, 55 p.

[8] see ECOSOC, The benefits associated with the least developed country status and the question of graduation, Note by the Secretary-General, E/2001/CRP.5, 17 July 2001, p. 18.

D. The "island paradox" and the need for a more differential approach to graduation

24. In the light of the present potential graduation cases, which are all relevant to small island developing States (SIDS), the debate on the relevance of "smooth transition" measures for graduating countries raises a paradox that policy makers of SIDS have been pointing to for many years: SIDS often appear relatively prosperous on the basis of the per capita income criterion, which is a determining factor of their eligibility for graduation. However, they are generally among the most economically handicapped and vulnerable countries, and for this reason, they are often among those least prepared to face the impact of graduation (loss of concessionary treatment) from LDC status for least developed SIDS, or from other types of special treatment (concessionary financing) for more advanced SIDS.

25. The "island paradox" reflects a facet of the imperfection of the current special and differential treatment of developing countries by the international community. It reveals the fact that the treatment is insufficiently "differential" in its attempt to deal with the specific problems of vulnerable economies, even though these problems have been widely recognized within the United Nations system.

IV. Conclusion: towards a better impact of the special treatment of LDCs

26. The existence of the LDC status is based on the recognition, by the international community, of the serious disadvantages which LDCs face in their development efforts as a result of weaknesses in their human capital and economic structures. With such disadvantages, the LDCs are faced with the risk of inability to converge with the rest of the global economy, and to escape the "poverty trap". The rationale for granting LDCs special international support measures is well accepted by the international community. However, the paramount objective of structural socio-economic progress, which had been envisaged as a *raison d'être* of the category, has remained largely unfulfilled. The fact that only one country graduated from the list of LDCs while the size of the category almost doubled calls for a critical review of the effectiveness of the special treatment of LDCs. Furthermore, there is the perception of a growing contrast between the diversity of individual situations and prospects among the LDCs, and the uniform nature of the treatment of LDCs by the international community.

27. There has also been a concern, in the last five years, about a paradox: the few small island LDCs that have come near to "graduation borders", and would soon be invited to exit the category, happen to be among the economically most vulnerable LDCs, and among those least prepared to face the loss of special support measures associated with graduation, given their continuous need for LDC benefits. This is illustrated by the fact that relevant "borderline" countries, for valid reasons, have difficulties with the idea of graduating in the near future.

28. Overall, there are questions about the impact of the LDC status, at the same time as a general perception of the legitimacy of the status. It is generally felt that some meaningful efforts to revisit the question of the effective benefits and to promote a "smooth transition" for graduating countries would be sufficient to reinforce the pertinence of the category. There is a need to ensure that the LDC status, which is universally accepted and conceptually well founded, is translated into an effective tool for socio-economic transformation and convergence with other developing countries, regardless of the anticipated length of the road to graduation[9]. An interesting approach to enhancing the effective impact of the LDC status could be found in a new

[9] The *Least Developed Countries Report 2002* noted, however, that "it will be difficult for the LDCs to get on and move up the ladder of development if the more advanced developing countries face a 'glass ceiling' which blocks their development", p. 235.

logic in which the need for some special measures would be pre-determined on a country-specific basis, in the light of the criteria, and would call for closer responses by ISMs to the needs thus highlighted.

29. As the promoter of the LDC status, the United Nations has a special role in alerting the international community to a number of gaps between the intentions that had originally been stated in favour of the LDCs, and the benefits that have effectively accrued to these countries as a result of the status. Reinforcing the structural impact of LDC-specific international support measures is of particular importance. A new approach to the use of the LDC status would not challenge the benefits derived by LDCs from other statuses. It would make LDC-specific benefits complementary to other benefits, thereby enhancing the overall impact of international cooperation in favour of the LDCs.

Possible areas of action for consideration by the Trade and Development Board

30. Within the limits of its current resources, UNCTAD will be able to focus on the following activities, with a view to enhancing the benefits effectively derived from the LDC status, and accelerating the progress of some LDCs towards graduation borders:

(a) Periodic evaluation of the effective benefits derived by each LDC from its status (including the extent to which available international support measures have been effectively utilized, and the extent to which relevant benefits have had a structural socio-economic impact); this exercise was initiated in 2000-2001, at country levels, for the preparation of the national programmes of action that were presented to the Third United Nations Conference on the LDCs;

(b) Periodic evaluation of the progress made by each LDC toward graduation thresholds; this exercise was launched in 2002 as an input to the work of the Committee for Development Policy[10]. It will be pursued and expanded on a yearly basis, with particular attention given to "borderline" cases of graduation;

(c) Preparation of selected country-specific vulnerability profiles to highlight the particular need for structural benefits, with a view to monitoring structural progress under the vulnerability criterion, and in keeping with relevant commitments under the Programme of Action; this exercise was first carried out in 2000, in the context of the review of the list of LDCs, for Cape Verde, Maldives, Samoa, and Vanuatu. It could be extended to other LDCs;

(d) UNCTAD could make a key contribution to the mid-term review of the Programme of Action for the LDCs for the 2001-2010 decade through a global assessment of the effective benefits that have been gained by LDCs by virtue of their LDC status; UNCTAD would at the same time be able to formulate a set of recommendations for improving the global range of concessionary measures offered by the international community by virtue of the LDC status, and propose an "exit strategy" framework for countries near graduation borders, with particular reference to the need for a "smooth transition" of these countries.

31. These activities are envisaged as a source of useful inputs to the work of ECOSOC. In anticipation of tasks (i) and (iv) above, there is a need for all development partners to indicate the

[10] see UNCTAD, Graduation from the Least Developed Country status: where do the LDCs stand?, UNCTAD/LDC/Misc. 83, 2002, 55 p.

areas of their cooperation with LDCs that involve international support measures granted by virtue of the LDC status.

32. The experience gained from the preparation of the Third United Nations Conference on the Least Developed Countries showed that LDCs will require assistance in elaborating national priorities and strategies and identifying the particular international support measures that could respond to the structural problems observed under the criteria. Subject to the availability of extra-budgetary resources, UNCTAD could assist selected LDCs in these areas. The few LDCs that have come near to graduation borders could be assisted in identifying desirable "smooth transition" measures as a framework for their eventual graduation. For the "second wave" of countries behind the potential graduation cases (i.e. countries demonstrating some structural progress, but not yet foreseeing graduation in the near future), country-specific packages of measures could be formulated in the light of an analysis of structural disadvantages as measured under the LDC criteria. LDCs with a long road to graduation would also be urged to formulate country-specific packages (indicating mixes of expected benefits) in keeping with the long-term poverty reduction strategy and its implications for desirable special measures. LDCs that already have or will have a Poverty Reduction Strategy Paper should use this opportunity to highlight the elements of the strategy that call for an LDC-specific treatment.

33. Besides contributing valuable inputs to the overall monitoring of the fulfilment of the Millennium Development Goals, these activities will generate analytical findings and recommendations that will be useful to all stakeholders and facilitate the effective monitoring and evaluation of the implementation of the Programme of Action.

Annex 1

Evolution in the methodology for identifying LDCs

	Years			
	1971	**1991**	**2000**	**2002** (in anticipation of the 2003 review of the list of LDCs)
Low income criterion	***Per capita* GDP:** $100 or less in 1968 prices; a lower cut-off point and an upper cut-off point were considered, until 1990, in applying the inclusion rule (1990: $473 and $562, respectively)	**Per capita GDP**: three-year average, converted at each year's official exchange rate (under $600 for inclusion, above $700 for graduation)	**Per capita GDP**: three-year average, converted at each year's official exchange rate (under $900 for inclusion; above $1,035 for graduation)	**Per capita GNP**: as calculated in the World Bank Atlas (thresholds for inclusion and graduation have not yet been determined)
Weak human capital criterion	**Adult literacy rate:** 20% or less	**Augmented Physical Quality of Life Index (APQLI):** calculated as a simple average of four component indicators: - life expectancy at birth - per capita daily calorie intake - combined primary and secondary school enrolment ratio - adult literacy rate	**Augmented Physical Quality of Life Index (APQLI):** calculated as a simple average of four component indicators: - child mortality rate (under age 5) - per capita daily calorie intake as a percentage of the relevant requirement - combined primary and secondary school enrolment ratio - adult literacy rate	**Human Assets Index (HAI):** calculated as a simple average of four component indicators: - child mortality rate (under age 5) - per capita daily calorie intake as a percentage of the relevant requirement - secondary school enrolment ratio - adult literacy rate
Weak economic structure criterion	**Share of manufacturing in GDP:** 10% or less	**Economic Diversification Index (EDI):** calculated as a simple average of four component indicators: - share of manufacturing in GDP - share of industry in the labour force - annual per capita commercial energy consumption - UNCTAD's merchandise export concentration index	**Economic Vulnerability Index (EVI):** calculated as a simple average of five component indicators: - share of manufacturing and modern services in GDP - UNCTAD's merchandise export concentration index - an index of instability of agricultural production - an index of instability of exports of goods and services - population size (in logarithm)	**Economic Vulnerability Index (EVI):** calculated as a simple average of five component indicators: - share of manufacturing and modern services in GDP - UNCTAD's merchandise export concentration index - an indicator of instability of agricultural production - an indicator of instability of exports of goods and services - population size (in logarithm)

Inclusion rule	A country qualified to be included in the list of LDCs if it met the above three criteria, or the first and the third or the second and the third criteria if the country did not exceed a certain cut-off point under the first criterion.	A country qualified to be added to the list of LDCs if it met the above three criteria and did not have a population greater than 75 million.	Unchanged	Unchanged
Graduation rule	None	A country would be recommended for immediate graduation from the LDC status if it had met at least two of the three graduation criteria in two consecutive triennial reviews. Graduation criteria: the three graduation criteria have been the same as the three inclusion criteria (low income, weak human capital, weak economic structure), subject to a margin between the inclusion threshold and the graduation threshold.	Unchanged	Unchanged
Supplementary considerations	When one criterion was not met but per capita GDP was close to the lower cut-off point, judgement on inclusion would have to be exercised to take into account specific circumstances such as an exceptionally low rate of real growth in recent years.	If either the APQLI or the EDI criterion was not met, certain qualitative characteristics, such as having a very small population (one million or less) or being land-locked or geographically isolated, or exposed to frequent natural disasters, could justify a recommendation for inclusion in the list of LDCs.	If any of the three graduation criteria (per capita income, human resources structural vulnerability) is near its threshold, a country-specific vulnerability profile is called for to enable CDP members to make a sound judgement about adding a country to the list of LDCs if there is a proximity to the inclusion threshold regarding any of the three inclusion criteria while the other two are clearly met. Likewise, a vulnerability profile will be needed if a country exceeds two of the three graduation thresholds while remaining close to the threshold for at least one of the two.	Unchanged

Annex 2

Summary of expected international support measures
by virtue of the LDC status

Areas of special treatment	Special treatment derived from the LDC status	Treatment derived from Developing country status
I. Trade		
Market access (whether the beneficiary country is a WTO Member or not)	(a) **Non-reciprocal preferences on developed countries' markets** Generalized System of Preferences (GSP) Special treatment of LDCs under autonomous GSP schemes providing advantages in terms of tariffs and rules of origin (in the schemes of the EU, Canada and the United States) Prospects for duty-free and quota-free treatment on the Quad countries' markets for essentially all products originating from LDCs The ACP-EU partnership Current level of non-reciprocal trade preferences for ACP LDCs (like non-ACP LDCs) results from the "Everything But Arms" (EBA) initiative From 2008, a non-reciprocal trade regime is likely to continue to be applied to ACP LDCs (b) **Non-reciprocal preferences on developing countries' markets** Global System of Trade Preferences (GSTP) Special concessions for participating LDCs Regional trading arrangements Special concessions for participating LDCs in some cases	(a) **Non-reciprocal preferences on developed countries' markets** Generalized System of Preferences (GSP) Preferential treatment Prospects for general tariff reduction The ACP-EU partnership At present, non-reciprocal trade preferences for ACP non-LDCs From 2008, reciprocal trade regime (b) **Reciprocal preferences on developing countries' markets** Global System of Trade Preferences (GSTP) Concessions for participating countries Regional trading agreements Concessions for participating countries
Within the World Trade Organization (WTO)	(a) **Exemption from obligations** Agriculture Exemption from the obligation to reduce barriers Subsidies Exemption from prohibition on export subsidies	(a) **Temporary exemption from obligations** Agriculture Reduction commitments to be implemented over a period of 10 years Subsidies Same exemption applies only if the developing country is a low-income country

	(b) **Transitional period for implementation of WTO agreements or provisions** Sanitary and phyto-sanitary measures (SPS) Transitional period of up to 5 years in implementing the provisions of the Agreement regarding measures that affect imports TRIMs 7-year transitional period (with possibility of extension) to eliminate TRIMs that are inconsistent with the Agreement TRIPs Delay for up to 10 years (with possibility of extension) in implementing most TRIPs obligations (c) **Other special and differential treatment** Textiles and clothing Significantly more favourable treatment by Members that would be making use of transitional safeguards GATS Special priority given to LDCs in implementing Article IV of the GATS Settlement of disputes Members to "exercise due restraint" in raising matters involving an LDC Member, or in seeking compensation or authorization to suspend concessions to an LDC (d) **Accession to the WTO** Accession of LDCs remains a priority. In the Doha Ministerial Declaration, the ministers agreed "to work to facilitate and accelerate negotiations with acceding LDCs"	(b) **Transitional period for implementation of WTO agreements or provisions** Sanitary and phyto-sanitary measures (SPS) Transitional period of up to 2 years only TRIMs Transitional period of 5 years only TRIPs General transitional arrangements for implementation of most obligations (5 years or 10 years in certain cases) (c) **Other special and differential treatment** Textiles and clothing Differential and more favourable treatment in the fixing of economic terms, subject to volume exported GATS General efforts to encourage the participation of developing country Members in trade in services Settlement of disputes Various provisions for developing country Members (d) **Accession to the WTO** The WTO Secretariat provides, upon request, technical assistance to the Governments of acceding countries
II. Official development assistance (ODA)	ODA target 0.15 or 0.20 per cent of donor countries' GNP was expected to be devoted to LDCs	ODA target 0.7 per cent of donor countries' GNP was expected to be devoted to developing countries
III. Technical cooperation		
Integrated Framework for Trade-Related Technical Assistance (IF), sponsored by six core organizations (IMF, ITC, UNCTAD, UNDP, WB, WTO)	All LDCs can have access to trade-related technical assistance under the IF	No IF assistance

Annex 3

Summary of the situation of LDCs vis-à-vis graduation borders

LDCs meeting no graduation criterion in 2000:	
LDCs demonstrating no consistent progress under any criterion	Afghanistan, Benin, Cambodia, Dem. Rep. of the Congo, Djibouti, Gambia, Guinea-Bissau, Haiti*, Lao People's Dem. Rep.*, Lesotho*, Mozambique, Myanmar**, Rwanda, Senegal, Solomon Islands*, Somalia, Sudan, Togo, United Rep. of Tanzania, Zambia
LDCs demonstrating sudden progress as a result of the substitution of the EVI for the EDI	Angola, Burkina Faso, Central African Rep., Chad, Comoros, Ethiopia, Guinea, Kiribati*, Malawi, Mali, Mauritania, Nepal, Niger, Sao Tome and Principe*, Sierra Leone
LDC demonstrating consistent progress under the quality-of-life criterion (APQLI)	Bhutan
LDCs demonstrating consistent progress under the economic diversification/vulnerability criterion (EDI/EVI)	Burundi, Uganda, Yemen
LDCs meeting one graduation criterion in 2000:	
LDCs meeting the low-income criterion of graduation (per capita GDP)	Equatorial Guinea, Liberia, Tuvalu, Vanuatu**
LDC meeting the quality-of-life criterion of graduation (APQLI)	Samoa**
LDCs meeting the economic diversification/vulnerability criterion of graduation (EVI)	Bangladesh, Eritrea, Madagascar
LDCs currently eligible for graduation, for which the decision about graduation has been postponed	Cape Verde (since 1994), Maldives*** (since 1997)
LDC already graduated:	Botswana (1994)

*countries that met one graduation criterion before 2000 and did not meet any in 2000
**countries that met two graduation criteria before 2000 and only one or none in 2000
***country that met three graduation criteria before 2000 and only two in 2000

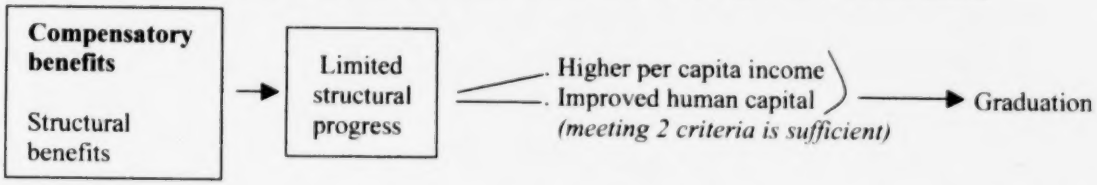
Source: UNCTAD, Graduation from the Least Developed Country status: where do the LDCs stand?, UNCTAD/LDC/Misc. 83, 2002.

Annex 4

Two options for the graduation rule

The current scenario

(structural progress is limited, vulnerability is high, graduation is debatable)

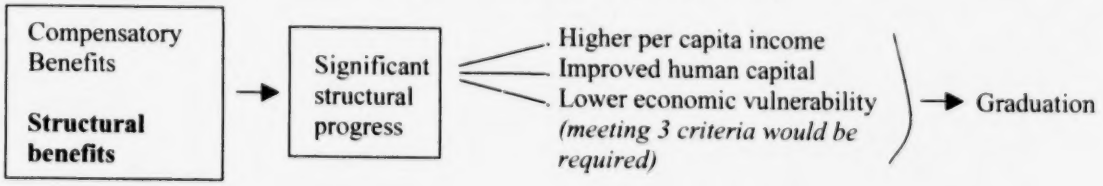


Cape Verde: Effective benefits from the LDC status and relevant structural progress have been limited. However, the per capita income and human capital criteria for graduation are met, while economic vulnerability remains high. Graduation, though expected on technical grounds, is undesirable in the absence of significant structural progress, because of the continuous dependence of the human capital performance on foreign aid (including food aid).

Maldives: Effective benefits from the LDC status have been mainly compensatory (zero-tariff access to the EU's tuna market). Structural economic progress (beneficial specialization in tourism) has been little related to the LDC status. Graduation, though expected on technical grounds, is likely to harm the tuna industry and entail a mismatch between future aid inflows and growing financial needs associated with acute structural disadvantages.

An alternative scenario

(structural progress would have taken place, vulnerability would be lower, graduation would be better founded)



Cape Verde: Graduation would not be envisaged until effective structural benefits have generated relevant structural progress (food self-sufficiency, diversification), unless graduation is organized in the context of a smooth transition with great flexibility.

Maldives: Graduation would not be envisaged until effective structural benefits have generated structural progress under the national population relocation strategy (sea-level rise), and until answers have been brought to the question of "smooth transition" regarding the EU market and future aid levels.